

DEBTS, DICTATORSHIP AND REVOLUTION IN BOLIVIA AND PERU

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INTRODUCTION

THE year 1930 was one of revolution in Latin America. Governments were overthrown in Santo Domingo, Bolivia, Peru, Argentina and Brazil. In Haiti, Cuba, Nicaragua, Panama, Uruguay and Chile there was political unrest of more or less intensity.

The number and results of these upheavals called forth many interpretations by foreign observers. Some gave the familiar explanation that the revolts were due to a peculiar Latin-American revolutionary temperament. Others saw in them evidence of the power of a growing middle class and of an increasing desire in Latin America to set up genuine constitutional governments. Frequently

the major cause assigned was the world economic depression.

This report deals with the revolutions in Bolivia and Peru. It does not "explain" them, but it does attempt to summarize some of the conditions which made for economic and political instability during the tenure of of the administrations overthrown.

Furthermore, these cases should not be considered as typical. The immediate and remote circumstances surrounding the revolts in Bolivia, Peru, Argentina and Brazil differed. Nor was any single revolt typical of the normal political life of any one country, as is amply shown by the increasing political stability in Argentina, Brazil and Bolivia, for example, since 1900.

BOLIVIA

FACTORS IN BOLIVIAN HISTORY: ECONOMIC AND SOCIAL

Economically, Bolivia is one of the least developed nations in South America. In a country where the trade routes follow mountain passes with an average altitude of 14,000 to 15,000 feet, railway construction has been slow and costly.¹ Another obstacle to progress has been the regional interests by which the country has been divided. The most densely populated part of its territory, called the "Altiplano," is separated from the Pacific by Chilean and Peruvian territory. One of the objects of each administration has been to unite the fertile interior of the country with the cities and industrial centers of the "Altiplano" and with the coast. Today the populated centers have been connected by rail with the ports of Antofagasta, Mollendo, Arica and Buenos Aires.

Furthermore, general conditions have tended to make the mass of the population an economic liability. Three-fourths of the Bolivians are Indians of pure or mixed blood, with an illiteracy rate of well over 85 per cent. Many of them still live their ancestral community life in the *ayllús*, as far from the white man as they can go.² They barely exist on a barren soil and the failure of a single crop brings immediate famine. Frequently they are forced or enticed out of their communities to work on railway and road construction.³ For the most part they are bitterly opposed to economic improvements and frequently they rise in revolt.⁴

In spite of the liberal land law of 1886, under which over thirteen million acres had been granted up to 1920, settlement by for-

1. It is conservatively estimated that railway construction costs have averaged \$48,500 a mile. Adolfo Ballivián, *Bolivia, Her Resources and Future* (London, E. Stanford, Ltd., 1920), p. 30. On the Oruro-Cochabamba line, costs have risen as high as \$154,000 a mile.

2. G. M. McBride "The Agrarian Indian Communities of Highland Bolivia," *American Geographical Society, Research Series*, No. 5 (New York, 1921), p. 11.

3. W. L. Schurz, *Bolivia, a Commercial and Industrial Handbook* (Washington, U. S. Department of Commerce, 1921), p. 88; A. V. L. Guise, *Six Years in Bolivia* (London, T. F. Unwin, Ltd., 1922), p. 86, 137.

4. H. T. Collings, "The Indian Uprising in Bolivia," *Current History*, October 1927.

foreign immigrants has been slow. Much of this land has been held for speculation. Lack of electric power has prevented the development of tin smelting; the geographic isolation of the country and the lack of communications has discouraged foreign capital, while foreign trade has remained constant and small in quantity.⁵ From 1914 on, tin accounted for the bulk of the exports,⁶ and although efforts were made during the war to increase production of antimony, tungsten, copper, zinc and rubber, the predominance of tin was not changed.

For many years public finances in Bolivia have been unstable. Budgets have been balanced artificially by fixing the expected revenue at sums much higher than could actually be collected. With the treasury largely dependent on mining taxes, a decline in prices on tin, copper or silver has thrown the fiscal administration into disorder. In 1920, for example, of an estimated income of \$2,000,000⁷ from mining taxes, only \$270,589 was actually collected. To meet the resulting deficits⁸ it was the practice to issue customs notes (*vales de aduana*) bearing 9 per cent interest against future customs revenues. In 1921, \$9,151,000 of these notes were outstanding. Moreover, the various administrations resorted to foreign borrowing, so that Bolivia, which had no foreign debt in 1908, owed \$60,384,000 abroad in 1930.⁹ These funds were used principally for balancing the budget and for constructing railways and roads.

POLITICAL: VICTORY OF THE REPUBLICAN PARTY

This economic maladjustment has been

5. From 1915 to 1922 the value of foreign trade, with allowance made for conditions brought about by the war, rose from £8,620,793 to £9,245,406. Ballivián, *Bolivia, Her Resources and Future*, cited, p. 35, 59.

6. In 1918, a typical year, mineral products comprised 87 per cent of exports; of these 86 per cent were tin products.

7. The *boliviano* at par is worth 36.49 cents in United States currency. Conversions have been made allowing for fluctuations in Bolivian exchange.

8. The following table illustrates how Bolivia's deficits have accumulated:

| Year | Deficit | Year | Deficit |
|------|------------|------|-------------|
| 1916 | \$ 820,458 | 1921 | \$2,447,967 |
| 1917 | 939,244 | 1922 | 4,507,512 |
| 1918 | 272,222* | 1923 | 1,744,031 |
| 1919 | 2,420,829 | 1924 | 522,180* |
| 1920 | 431,988 | 1925 | 461,629 |

*Surplus.

Cf. James M. Corliss, *Latin American Budgets* (Washington, U. S. Department of Commerce, 1927), Part II, p. 42.

9. Cf. Bolivia, *Comisión Fiscal Permanente, Memoria, 1929-1930*, p. 14, and Bolivia, *Ministerio de Hacienda, Memoria, 1909*, p. 26.

reflected by unstable political life. Although Bolivia has made marked progress toward democratic government within recent years, up to 1920 the country had been ruled by seventy-four executives. Frequently extra-legal, their rule was marked by centralized power and the use of the army for political purposes, with little organized opposition to the ruling party.

The Liberal party, which had dominated Bolivian politics since 1898, was overthrown by the revolution of July 1920 headed by Bautista Saavedra. As a result of this revolution, Saavedra, as the head of the Republican party, became President for a term ending in August 1925. The President, however, soon lost the confidence of a number of Republicans, who objected to his domination of the party and to the increase of the foreign debt.

In the presidential elections of May 1925, the leader of this dissident group, Daniel Salamanca, was defeated by José Gabino Villanueva, the administration candidate. Not having recovered sufficiently, the Liberals did not take an active part in the campaign. Before Villanueva could assume control, however, Bautista, with the support of the army, compelled Congress on September 1, 1925 to declare the May elections void on grounds of fraud. Bautista furthermore stipulated that his brother Abdón, who had been elected Vice President in May, should take over the duties of the executive for six months, when new elections would be held.¹⁰

This coup, together with the plan for new elections, was interpreted as a preliminary step for the return of Bautista to the presidency.¹¹ Nevertheless, the strong opposition of the dissenting Republicans and other groups obliged Bautista to accept a compromise candidate, Hernando Siles, then in exile. Siles was elected in December 1925 and took office on January 10, 1926. Bautista Saavedra now went to Europe on a diplomatic mission and his brother Abdón continued as Vice President.

10. It does not seem clear why the fraud which invalidated Villanueva's election did not affect the status of Abdón Saavedra.

11. Under the Constitution the President can serve only one term.

PROGRAM OF ECONOMIC DEVELOPMENT

Three major economic problems confronted the Republican party when it came to power in 1920: the development of industries other than tin, lead and copper mining, the development of communications, and the stabilization of public finances.

PETROLEUM

On the first point, considerable hope had been pinned on the development of the petroleum industry. From 1906 to 1920 Bolivian and Chilean capital had been interested in the oil deposits of southern Bolivia. This period was characterized by small holdings and small-scale drilling. In 1920, however, Standard Oil, Backus and Levering—the last two representing British capital—came into the field.¹² The British were interested in increasing traffic on the British-owned Argentine railways, the logical carriers of oil from southern Bolivia to the sea. The Levering concession, later bought by Standard Oil, amounted to 1,000,000 hectares.¹³

On June 20, 1921 the government enacted a law which limited concessions to 300,000 hectares, imposed a tax of 2.5 centavos per hectare, required a deposit of 10 centavos per hectare, fixed the maximum limit within which drilling operations were to begin at four years from the date of the grant, and allocated to the state 11 per cent of the oil pumped. Since the holdings previously mentioned had been granted prior to the enactment of the law, they were not affected by its provisions.¹⁴

Nevertheless, the oil industry lagged. In 1926, on the 1,515,963 hectares controlled by Standard Oil, only four wells were producing.¹⁵ As a further stimulant, the government, by executive decree of May 15, 1929, exempted all oil companies from depositing the guarantee of 10 centavos per hectare.¹⁶

Siles attempted to stimulate the economic life of the country in February 1926 by

granting two concessions, totaling fifty million acres in the southeastern part of the country, to a British syndicate headed by Sir Martin Conway. Under the terms of the grant Bolivia hoped for the development of a vast region, hitherto untouched, by an extension of the railway system and by the establishment of a port on the Paraguay river. Inadequate planning on the part of the concessionaires, speculation in the stock of the syndicate, loss of equipment and other factors wrecked the project, however, before it could get under way.

THE MARCONI CONCESSION FOR POSTS AND TELEGRAPHS

Siles also made an agreement with the Marconi Wireless Telegraph Company, Ltd., granting it the management and exploitation of the postal, telegraph and radio services in the country for a period of twenty-five years.¹⁷ Operating with a guaranteed revenue for the first two years, the company thereafter was to share with the government the profits which were expected to accrue by reason of more efficient administration of these services.¹⁸ The contract was subject to approval by Congress. Nevertheless, Siles, without waiting for such approval, issued a decree authorizing the company to begin operations in October 1926.

As late as November 1928 the contract had not been approved by Congress. In the 1928-1929 legislative session charges were made that the company had drawn on a special government pension and retirement fund to the amount of \$10,000 to meet operating expenses.¹⁹ The Minister of Public Works admitted this charge on the floor of the Senate but stated that the company had returned \$2,660 of this sum.²⁰ Figures were quoted by Senator Paravicini purporting to show that the company had operated with a surplus of \$159,135 between May and December of 1927, while the company's statement showed a deficit of \$103,923 for the same period.²¹ According to the Minister

12. Schurz, *Bolivia, a Commercial and Industrial Handbook*, cited, p. 140 et seq., and Carlos Espejo Harms, *Bolivia en sus diversas fases* (Santiago de Chile, 1922), p. 165.

13. A hectare is equal to 2.47 acres.

14. Cf. Harms, *Bolivia en sus diversas fases*, cited, p. 168.

15. Bolivia, *Mensaje del Presidente Provisorio al Congreso*, 1926, p. 39; Bolivia, *Mensaje al Congreso . . . del Presidente Siles*, 1926, p. 27 (hereinafter cited as *Mensaje*).

16. In 1930 American oil companies advanced 300,000 bolivianos (about \$100,000) to the Siles administration. Cf. Max Winkler, "America's Stake Abroad," *F. P. A. Information Service*, Vol. VI, No. 24, Part II, February 4, 1931, p. 465.

17. *Mensaje*, 1929, p. 46.

18. For the text of the contract, cf. Bolivia, *Ministerio de Fomento, Memoria*, 1926, p. 301-313.

19. Bolivia, *Redactor de la H. Cámara de Senadores*, 1928-1929, Vol. II, p. 140-1.

20. *Ibid.*, p. 147.

21. *Ibid.*, p. 145.

of Public Works, the company had recognized its deficiencies by sending a new general manager to Bolivia. The new manager, while admitting that "the company had not lived up to its obligations," promised that "henceforth things would be different."²² The Senate, however, held that the leasing of the radio and telegraph services to a foreign concern was contrary to national interests and refused to approve the contract, the services reverting to the government.

RAILWAY CONSTRUCTION

Siles' attempt to increase railway construction—another part of the program of economic development—must be considered in the light of conditions in the past. A large part of Bolivian politics since 1890 could be explained in terms of the story of railways. The principal lines have been laid over the Andes in a region of deep ravines and desolate heights. Construction costs have therefore been unusually high and difficult to estimate.²³ The government has hesitated between constructing lines on its own account and letting out the work to foreign companies. In one case a line begun by the government was turned over for completion to a foreign concern, but when this concern was unable to finish the work the line reverted to the government. In a similar manner, most railways have changed hands several times in the course of construction. Furthermore, regional interests have blocked more rapid progress; La Paz, Sucre, Santa Cruz and Cochabamba are mutually jealous, and oppose any line which might benefit a single district²⁴—and it must be added that money borrowed abroad for railway building has sometimes been spent for other purposes.²⁵ It was largely because of these conditions that Siles was unable to make progress in developing the communications of the country.

Rail Projects Undertaken by President Siles

The Yungas line, for example, advanced very slowly. Designed to connect La Paz with the northern territories, it was scheduled to reach the Beni river by January

1929. By April of that year only 53 of the 350 kilometers had been laid. Up to that time the line had cost about \$4,000,000, or more than \$75,000 a mile, and was then operating with a monthly deficit of \$3,330.²⁶

Between 1923 and 1929 about \$14,300,000 was appropriated for the completion of the Potosí-Sucre line from the Nicolaus, Patiño and Dillon loans.²⁷ Early in 1929, however, only some 80 kilometers of the scheduled 170 had been built, at a cost of about \$128,000 a mile. In February of that year the road owed the government \$20,000, and it was stated that \$2,350,000 would be needed to finish it.²⁸

The Atocha-Villazón line was in a similar condition. Of the 1922 loan, \$9,615,600 was set aside for its completion under a contract with the Ulen Contracting Corporation. By the end of 1925, \$9,624,180 had been spent and the line was not finished.²⁹ Experts stated that an additional \$276,000 would be needed.³⁰ When the Ulen corporation dropped the work in 1926 and a contract was signed with Dates and Hunt for its continuation, it was found necessary to borrow an additional \$1,333,000. In 1928 and 1929 the monthly deficit varied between \$6,000 and \$13,000.³¹

Lastly, in January 1928, the British-controlled Bolivia Railway Company, operating lines in western Bolivia in which the government had a \$12,000,000 interest, declared itself unable to meet the principal and interest due on its bonds. The government was obliged to contribute \$1,790,000 for the reorganization of the company in order to save its investment.³²

HIGHWAY BUILDING

Highway-building was equally slow. Road funds were used for other purposes.³³ Workers fled from the cities and towns in order to evade the compulsory road service law (*prestación vial*) which required all able-bodied male citizens to give two days' ser-

22. *Ibid.*, p. 147.
23. Cf. M. C. Marsh, *The Bankers in Bolivia* (New York, Vanguard Press, 1928), p. 70-71.
24. Cf. *Redactor*, 1928-1929, Vol. III, p. 365-70.
25. Cf. p. 107.

26. *Ibid.*, p. 711.
27. C. A. McQueen, *Bolivian Public Finance* (Washington, U. S. Department of Commerce, 1925), p. 53, and *Redactor*, 1928-1929, Vol. I, p. 671-73.
28. *Ibid.*, Vol. III, p. 378.
29. Bolivia, *Ministerio de Fomento, Memoria*, 1925, p. 42.
30. Bolivia, *Comisión Fiscal Permanente, Memoria*, 1925, p. 10.
31. Bolivia, *Ministerio de Fomento, Memoria*, 1926, p. 11.
32. *Ibid.*, *Memoria*, 1927, p. 112.
33. *Ibid.*, *Memoria*, 1926, p. 65; *Mensaje*, 1928, p. 91-92.
34. Bolivia, *Proyectos de leyes y Resoluciones de la H. Cámara de Diputados 1928-1929*, p. 120 (hereinafter cited as *Proyectos y Resoluciones*).

vice each year or pay a tax.³⁴ Conscripts proved inefficient, and the central government had to rely more and more on local initiative and private enterprise for road construction.³⁵

In a country where the popular support accorded the government is in direct proportion to the number of miles of roads and railways which the government constructs, conditions such as the foregoing were bound to weaken the Siles administration. Critics contended that foreign loans contracted for public works were disproportionate to work actually accomplished. Merchants of moderate means, traders, stock-raisers and farmers voiced their dissatisfaction, particularly in view of the increasing local and national taxes which could not be met unless domestic trade increased. Toward the end of his term in office President Siles could point to little substantial improvement of communications in the country, in spite of the money borrowed abroad for this purpose.

FOREIGN BORROWING: THE GOLD LOAN OF 1922

Large-scale borrowing by Bolivia began with the so-called Nicolaus loan of 1922, floated in part by the Stifel-Nicolaus Investment Company of St. Louis.^{35a} Although the terms of loan were severe, it was regarded by the government as necessary to consolidate the economic conditions of the country. The loan contract provided for a total of \$33,000,000 in 8 per cent bonds, which are not callable until 1937, and of which only \$29,000,000 was ever issued. Of the proceeds—\$26,836,939—slightly over \$14,000,000 was used to refund previous debts; \$10,500,000 was marked for railway construction, the remainder, approximately \$2,000,000, being spent for commissions, service of the loan, and miscellaneous charges.³⁶

The loans were secured by all the shares of the *Banco de la Nación Boliviana* and by a first lien on export and import duties, taxes on corporation incomes, interest-bear-

ing mortgage certificates, net profits of mining companies, net incomes of banks, and mining claims. In addition, 90 per cent of the revenue from the tobacco monopoly and all the revenue from the tax on production of alcohol and brandies in three of the departments was pledged. The importance of these provisions will be understood when it is recalled that out of the total revenues collected in 1926, amounting to \$14,943,000, \$9,862,000 or 65 per cent was pledged to the service of the loan.³⁷

The Comisión Fiscal Permanente

By the contract³⁸ a committee of three, called the *Comisión Fiscal Permanente*, was created. Two of its members are nominated by the bankers, and the third by the Bolivian government. By the terms of the agreement and under the provisions of the laws of March 27, 1922, April 27, 1928, and the decree of June 13, 1923, the *Comisión* was empowered to supervise the collection of the taxes mortgaged for the loan. Its duties included advising the government concerning reforms in the fiscal administration³⁹ and making a thorough examination of the finances and resources of the Republic, as well as collecting and disposing of the national revenues. Such reports continued to be made and submitted to the bankers and to the government each year. The yearly expenses of the *Comisión* were limited to one-half of one per cent of the revenues collected each year. The chairman of the *Comisión* was made director of the *Banco de la Nación Boliviana*, while the other American member was made Director General of Customs.

Although the 1922 loan left very little security for future loans, Siles continued the policy of his predecessors and borrowed extensively. In December 1926 he secured from Vickers-Armstrong a loan of \$9,088,200, to be used for the purchase of war material in England.⁴⁰ Bolivia received

37. Bolivia, *Comisión Fiscal Permanente, Memoria, 1927*, p. 44, et seq.

38. Article V.

39. The *Comisión* frequently exercised the right of advising the government by pointing to the danger of contracting additional loans; nevertheless, in 1925 it was urging the government to authorize the issue of bonds for the \$4,000,000 which remained of the Nicolaus loan. Cf. Bolivia, *Comisión Fiscal Permanente, Memoria, 1925*, p. 3-6.

40. Cf. *Mensaje, 1929*, p. 37. In January 1931 charges were made in La Paz that a large part of this loan went into the pockets of officials and that the war materials delivered to the Bolivian government were of very low quality. *New York Times*, January 31, 1931. These charges have not been investigated officially.

34. In 1928 an unsuccessful attempt was made to increase the number of days to six, partly on the ground that compulsory road service helped to civilize the Indian by bringing him into closer contact with the white man.

35. Bolivia, *Ministerio de Fomento, Memoria, 1926*, p. 147.

35a. The Equitable Trust Company and Spencer Trask and Company also participated in this loan, which is commonly known in the United States as the Gold loan or the 8-per-cent loan of 1922.

36. For the text of the contract, cf. Marsh, *Bankers in Bolivia*, cited, p. 136.

\$7,459,000 of the nominal value of the bonds, which carried yearly service charges of \$1,144,000.⁴¹

THE DILLON, READ LOAN FOR RAILWAYS AND ROADS

In 1927 Siles contracted a second loan—this time with Dillon, Read & Company of New York—for \$14,000,000 at 7 per cent. The funds were to be spent in constructing the Potosí-Sucre, Cochabamba-Santa Cruz and Atocha-Villazón railways, as well as some highways. The loan was secured by taxes on oil concessions and by special consumption taxes which had been created by law in August 1923 and January 1924.^{41a} In the negotiations which preceded the final agreement, the bankers suggested that the Bolivian government authorize bond issues which would eventually total \$60,000,000, part of which was to be used in refunding the Nicolaus loan in 1937.⁴²

In this same year the government had called Professor Kemmerer of Princeton University to suggest reforms in the fiscal system. Professor Kemmerer particularly criticized the inefficient system for collecting revenues,⁴³ the heavy indirect taxes and the inefficient fiscal procedure generally. He suggested heavier direct property taxes, an income tax, reorganization of banks, fixed responsibility for the expenditure of public money and stricter observance of the budget laws.⁴⁴ In accordance with these suggestions, the collection of taxes and customs duties was reformed, and an income tax

as well as a land tax was put into effect. The administration of these taxes was placed in the hands of the *Comisión Fiscal Permanente*. Later the *Banco Central* was organized, an American was appointed comptroller and the *boliviano* was revalued.⁴⁵

THE SECOND DILLON, READ LOAN AND THE KEMMERER REPORT

In 1928 Bolivia secured an additional loan of \$23,000,000 through Dillon, Read & Company, on the condition that it carry out the suggestions of the Kemmerer report.^{45a} The proceeds from the loan were to be used almost entirely for refunding internal and foreign obligations, including over \$5,000,000 of the Vickers-Armstrong loan. Of the remaining sums, \$520,582 was for paying overdue salaries and \$2,259,900 for construction of roads.⁴⁶ This loan was secured by a stamp tax created by the law of February 14, 1927, a sales tax created by the law of December 12, 1923, a tax on beer created on February 7, 1927, and a tax on personal identification cards created by the law of December 10, 1927.⁴⁷ By these means Siles was able to continue his borrowing in spite of the fact that a large part of the ordinary revenues had been assigned to the Nicolaus loan. Siles, instead of checking the growth of Bolivia's foreign debt, permitted it to continue. In December 1920 the debt had amounted to about \$3,842,000.⁴⁸ By January 1925 it had risen to \$30,990,000, and by June 1930 to \$60,384,000.⁴⁹ On the other hand, the internal and floating debt had been reduced during this ten-year period from \$17,356,000 to \$6,736,000. Nevertheless, the growing foreign debt meant increasing burdens on the treasury for service charges, which in 1929 amounted to \$590,000 each month.⁵⁰ Approximately 37 per cent of the 1929 budget was marked for foreign debt service.⁵¹ Another 20 per cent, or \$3,700,000, was assigned to the Ministry of War; the two items together accounted for

41. Bolivia, *Comisión Fiscal Permanente, Memoria, 1927*, p. 4-6.

41a. This loan was also secured by a second lien on the majority of the taxes pledged to the Nicolaus loan of 1922.

42. The Bolivian agent, Señor Martínez Vargas, reported to his government that Dillon, Read & Company suggested that of this sum \$27,000,000 in bonds should be issued in 1937 for refunding the Nicolaus loan, which became callable in that year; that bonds amounting to \$10,000,000 should be issued immediately to cover the cost of construction of the Potosí-Sucre, Cochabamba-Santa Cruz and Atocha-Villazón railways; that Bolivia award the construction contract to a firm named by the bankers; that a fiscal agent be stationed in Bolivia to represent the bondholders; and that if the bankers failed to organize a syndicate to market the bonds, they would not be bound by the contract. Señor Vargas rejected these preliminary proposals.

For a time the negotiations could not be carried on in the open market. The agent reported that when he asked for competitive bids from different firms "the bankers invariably demanded that the government deal with them singly because, as they say, it is customary among responsible bankers not to compete with one another and because it is an established practice that while a deal [*un negocio*] is under way with one firm, it is not possible to negotiate with another firm until that deal is concluded." For a detailed account of these negotiations, cf. Bolivia, *Ministerio de Fomento, Memoria, 1927*, p. 574-586.

43. President Siles stated that inefficient tax collecting resulted in a yearly loss of \$2,000,000. *Message, 1928*, p. 14.

44. Cf. *La Misión Kemmerer en Bolivia* (La Paz, 1927).

45. During the revolutionary disturbances in 1930 the *Banco Central* successfully maintained the stability of the exchange and the gold reserve.

45a. *Message, 1929*, p. 35; cf. also *Comisión Fiscal Permanente, Memoria, 1927*, p. 38.

46. Bolivia, *Comisión Fiscal Permanente, Memoria, 1927*, p. 37 et seq.

47. *Ibid.*, p. 38-39.

48. *Ibid.*, *Memoria, 1925*, p. 19-20.

49. *Ibid.*, p. 21-22 and *ibid.*, *Memoria, 1929-1930*, p. 14.

50. Compiled from *ibid.*, *Memoria, 1929-1930*.

51. In 1927 the debt service amounted to 50 per cent of all government revenues. *Ibid.*, *Memoria, 1927*, p. 43. For the 1931 situation, cf. p. 109.

approximately 57 per cent of the total budgeted expenditures. Had these funds been invested in the productive enterprises for which they were primarily intended, such as railways and roads, the resulting benefits might have enabled the country to carry the growing debt burden. The case seems to have been otherwise. In November 1928, the Minister of the Treasury, questioned in the Senate concerning the 1928 loan, stated that of the amount borrowed \$4,000,000 had been marked to meet the deficit of 1927;⁵² \$667,670 had been used to pay the service charges of the Patiño loan, a transaction between the government and the Bolivian tin king;⁵³ an additional \$1,000,000 had been taken to reimburse Messrs. Patiño and Aramayo, both Bolivians, for other advances; and \$1,300,000 to pay salaries and overdue pensions to the veterans of the War of the Pacific.⁵⁴ When the Minister was asked to give an account of the money actually spent on the Potosí-Sucre railway, the Senate went into secret session.

BUDGET DEFICITS AND TAXATION

Practices which had become traditional in Bolivian public finance were allowed to continue. Budgets were voted with a deficit;⁵⁵ special or "extraordinary" credits were authorized with no revenues in sight to meet them; and the Minister of the Treasury, the President, and Congress exaggerated the probable revenues in order to balance income with expenditure.⁵⁶ As a result, the yearly deficits continued.⁵⁷

The Kemmerer reforms, moreover, were not entirely effective. They were opposed in the Senate on the ground that they were "formulated from an American and not from a Bolivian point of view."⁵⁸ The middle-class and the well-to-do refused to pay the

income and property taxes. The government increased consumption and sales taxes; to meet the expenses of a stadium to be built in La Paz, an additional tax on wool and hides was created.⁵⁹ The personal identification tax was created and the national government began to borrow funds from the departments.⁶⁰

This reversion to heavy indirect taxation caused discontent throughout the country. The Chambers of Commerce of Cochabamba and Sucre petitioned for a downward revision of taxes. Editorials stated that the people had been "taxed to exhaustion."⁶¹ Business interests asked for reductions in railway rates and wages, for amendment of laws regulating working hours and conditions, and for greater security for investments. On the other hand, the working class was affected by the increase in the cost of living⁶² and by the speculation of small merchants in staple commodities, a practice which the President attempted to curb by decree.⁶³ Strikes broke out in the Corocoro mines and in Oruro over wage cuts and layoffs. In La Paz the students of the secondary schools and of the university protested against the non-payment of the salaries of their instructors and against administrative changes ordered by the national government.⁶⁴

With the failure of the Conway concession, with the negligible development of the oil industry, with trade reduced by the slow progress of rail and highway construction and with a mounting foreign debt and national finances generally disorganized, Bolivia was in a weakened condition when the economic depression came in 1929-1930. Observers believed that the country had been in a prolonged crisis since 1925 and had been sustained only by the ready money available in New York. In the first half of 1930 the internal situation, already affected by unwise financial practices, was further complicated by the decline of foreign trade.

52. *Redactor*, 1928-1929, Vol. III, p. 512.

53. *Ibid.*, Vol. II, p. 371.

54. The loan contract provided for the appropriation of only \$473,729 for overdue salaries of the *Comisión Fiscal Permanente*. *Memoria*, 1927, p. 41.

55. Bolivia, *Ministerio de Hacienda*, *Memoria*, 1929, p. 15.

56. *Redactor*, 1928-1929, Vol. III, p. 508-09.

57. The following table shows the budget deficits for recent years:

| Year | Deficit |
|------|-------------|
| 1926 | \$1,189,000 |
| 1927 | 2,478,000 |
| 1928 | 3,194,000 |
| 1929 | 1,911,000 |

The budgets for these years averaged around \$16,500,000. Cf. Bolivia, *Comisión Fiscal Permanente*, *Memoria*, 1928-1929.

58. *Redactor*, Vol. II, p. 61.

59. Bolivia, *Anuario Legislativo*, 1928-1929, p. 171.

60. In January 1929 the national government owed the department of Potosí \$44,300. *Redactor*, 1928-1929, Vol. II, p. 876.

61. *La Razón*, March 9, 1929.

62. The price of a box of matches had risen to 50 centavos from the normal price of 15 centavos; that of cotton goods from 15 to 75 centavos a yard.

63. *Mensaje*, 1927, p. 17.

64. *Mensaje*, 1929, p. 24.

RELiance ON TIN

Bolivia relies largely on tin exports to balance its trade. In 1926, for example, minerals, including copper, silver, lead, bismuth and tin, accounted for 92 per cent of the country's exports, 80 per cent of which were tin products. Of the total export revenues in the same year, duties on tin brought in 96 per cent. Since export duties were fixed according to the world price of tin, a decline in the market quotations was immediately reflected in a decrease of cus-

toms revenues. From the £300 a ton at which tin was quoted in 1926 there was a steady decline to a low of £137 a ton in June 1930. Export duties on some commodities declined by as much as 44 per cent from 1927 to 1929.⁶⁵ In the first quarter of 1930 tin exports declined by over 16 per cent as compared to the same period in 1929. Declines were recorded in exports of copper, lead and silver as well. With stocks accumulating steadily and mines closing down in Oruro, Potosí and Corocoro, labor disturbances and general unrest followed.⁶⁶

THE 1930 REVOLUTION IN BOLIVIA

From the beginning of his term, President Siles faced internal and political problems arising out of party friction. Although the old Conservative and Liberal groups were disorganized, constant criticism came from their leaders. The President was condemned for continuing Bautista Saavedra's heavy borrowing. The Conway and Marconi concessions were regarded as "selling out" to foreign interests, although no concrete evidence was ever presented. Siles was also attacked for permitting General Hans Kundt, a German military expert who had been brought to Bolivia by Saavedra to reorganize the army, to remain as Chief of Staff. When the President denied that Congress had the right to increase the salaries of its members without the concurrence of the executive, he was accused of interfering with the legislative branch of the government.

Such criticisms were spasmodic and did not reflect a strong, organized movement capable of holding Siles in check. Nor could his opponents very well organize. From May 1927 to June 1930, the country remained in a state of siege, which meant that Siles could take any measures he considered necessary to insure public peace. Such measures included the deportation of Abdón Saavedra, the Vice President; the imprisonment of Senator Monje Gutiérrez; the sup-

pression of student riots by force, as in La Paz in May 1927; and the closing of newspapers and the deportation of their personnel.⁶⁷ Siles paid no attention to the demand for General Kundt's resignation.

SILES' CONDUCT OF FOREIGN AFFAIRS

Dictatorial as this conduct was, Siles managed to keep the opposition from crystallizing by arousing nationalist sentiment and by spending large sums on the army. During the Tacna-Arica controversy, which remained unsettled up to June 1929, Siles continually demanded that Bolivia be given a port on the Pacific, a patriotic attitude which strengthened his internal position. His prestige was increased when Secretary of State Kellogg suggested that Bolivia be given the territory in dispute between Chile and Peru. In the east, relations with Paraguay were critical.⁶⁸ Armed clashes between Paraguayan and Bolivian soldiers had taken place in February 1927. In December 1928 and again in January 1930, Siles called out the reserves and decreed a general amnesty for all political opponents in order to assure domestic tranquillity in case of war.⁶⁹ With the settlement of the Tacna-Arica issue and the collapse of the Chaco war scare, however, the attention of the country was again turned to domestic problems.

It was just at this time that two incidents aroused Siles' opponents to concerted action.

65. Bolivia, *Ministerio de Hacienda, Memoria, 1929*, p. 97-99; *Comisión Fiscal Permanente, Memoria, 1927-1929*, p. 10; and *ibid.*, 1929-1930, p. 21.

66. Bolivian tin producers had looked forward to an agreement between producers throughout the world, but by January 1930 no practical results had been achieved. Bolivia recently has ratified an agreement which, if accepted by all the tin producers of the world, will curtail production by approximately 22 per cent of the 1929 output.

67. *New York Times*, September 21, 1929.

68. Cf. Agnes S. Waddell, "Unsettled Boundary Disputes in Latin America," *F. P. A. Information Service*, Vol. IV, No. 26, March 5, 1930, p. 483.

69. *Mensaje*, 1929, p. 16.

On January 3 an editorial in *El Norte*, an administration organ, stated that "an opposition party is not an absolute necessity in political life . . . it destroys stability . . . it makes more difficult, and sometimes destroys, the program of the government."⁷⁰ This was interpreted to mean that Siles would continue to suppress anti-administration activities. Then, on April 9, the President announced the postponement of the presidential elections scheduled for May.

RESIGNATION OF SILES FROM THE PRESIDENCY

The crisis which resulted from this announcement proved to be more than Siles could control. The cabinet resigned. Army officers demanded the immediate dismissal of General Kundt. As a result, Siles resigned on May 28, after appointing a new cabinet which was to rule the country until a constitutional convention should elect a President. Since it was generally felt that Siles would control both the cabinet and the delegates to such a convention, this step was regarded merely as a means for assuring his continuation in power.

Vice President Saavedra thereupon issued a manifesto from Buenos Aires in which he stated that Siles' action was unconstitutional and that he was the legal President. On June 22 student riots broke out in La Paz, government troops killing one student. On June 25 General José Blanco Galindo, a popular army officer and an old opponent of Siles', organized a revolt in Oruro and marched north to attack Siles.

By June 27 a suburb of the capital, Alto de la Paz, was in the hands of the revolutionary troops. The following day the capital itself was taken with little difficulty and by June 29 the country was under the control of a military junta headed by Blanco Galindo. Siles had taken refuge in one of the foreign legations.

THE BACKGROUND OF THE 1930 REVOLUTION

The revolution in Bolivia in 1930 was the result of a combination of political and economic forces. When Siles became President he found the country heavily burdened with

a foreign debt. The policy of borrowing was continued, but the money produced by the loans did not strengthen the economic life of the country. Public works, railways and roads were not built in proportion to the funds borrowed for their construction. Projects for diversifying production failed. Treasury deficits continued and internal taxation was resorted to more and more. Finding the country already in a weakened condition, the depression of 1929-1930, by decreasing export revenues and the ability to continue borrowing abroad, caused the collapse of an already unstable fiscal structure. To the discontent among workers and business men caused by these conditions was added the irritation over the President's political conduct—the continuation of the state of siege, deportation of his critics, suppression of the press, the use of force to coerce students, and the postponement of the elections. Siles' downfall was inevitable.

The military junta presided over by General Blanco Galindo kept the country at peace during a difficult transitional period. A Supreme Council of National Economy was appointed to study the problems of foreign trade, exchange, unemployment and the public debt. On January 1, 1931 the Bolivian fiscal commission in New York announced that Bolivia could not at that time meet the service charges on the 1927 loan.⁷¹ Negotiations with New York bankers followed, looking toward some arrangement which would enable Bolivia to meet its obligations.⁷²

The foreign debt burden of Bolivia is about 16,000,000 *bolivianos* a year; but because of the present depression it is not expected that government revenues will exceed 22,000,000 *bolivianos* during 1931. In other words, if the foreign debt charges were met they would absorb between 65 and 75 per cent of the total revenue. While the new administration has reduced military appropriations somewhat, the 1931 budget still provides for a war expenditure of 9,302,612 *bolivianos*, which is 44 per cent of the probable revenue. It is the view of some observers that the government can be expected to make further economies here. While this excessive debt burden is a seri-

70. *El Norte*, January 3, 1930.

71. Cf. *New York Times*, January 2, 1931.

72. *Ibid.*, January 29, 1931.

ous handicap to the recovery of Bolivia, and while the country is dependent largely upon tin for its economic welfare, it possesses several advantages. In the first place, due to the central bank established as a result of the Kemmerer mission, the currency has remained stable throughout the revolution. Secondly, the political situation has been stabilized.

The Election of Salamanca

The promise that elections would be called within a reasonable time was kept, and in January 1931 Señor Daniel Sala-

manca was elected President. The military junta previously had declared in effect certain changes in the Constitution by which civil rights were safeguarded, the use of the state of siege was restricted, the Supreme Council of National Economy was given power to supervise government transactions to prevent fraudulent contracts, and other reforms in the fiscal system were established.⁷³ The retirement of this junta on March 6, 1931 in favor of a duly elected civilian was regarded as one of the most significant and promising events in the political history of the nation.

PERU

Peru has an estimated population of over 6,000,000, more than double that of Bolivia. As in the latter country, a large part of the population is of either pure or mixed Indian blood. The capital, Lima, and the chief seaport, Callao, are the economic, administrative and political centers of the country. The principal geographical divisions are the coastal plains, the Andean uplands and the eastern forest lands sloping toward the Amazon. Communications both by rail and by road are in a more developed state than in Bolivia; the mileage of the railroads in Peru is slightly over double that of the Bolivian lines. Guano, sugar, cotton, petroleum and copper are the principal products.

DOMINANT POSITION OF AUGUSTO B. LEGUIA

Within the past two decades the principal political figure in Peru has been Augusto B. Leguía, who rose to prominence as one of the leaders of the conservative *Partido Civilista*. As a result of schisms within the opposition parties, Leguía was elected President for the four-year term beginning in 1908. When his term came to an end, however, the *Civilistas* themselves had split, one wing being led by José Pardo and the other by Leguía himself. Pardo's election to the Presidency in 1915 temporarily eclipsed Leguía's political fortunes.¹

In the presidential elections of May 1919, Leguía again became a candidate and it was generally believed that he had polled a majority of the votes. Leguía, however, feared

that his enemies were planning to rob him of the election by voiding some of the ballots cast for him. To forestall this possibility, he led a revolt against President Pardo, overthrew him, dissolved Congress, sent his enemies into exile and called a national assembly to amend the Constitution. He was proclaimed President in October 1919.

LEGUIA'S PROGRAM FOR PERU

Leguía began his second term with an ambitious and clearly stated program—economic, financial, administrative and social. Peru was to be developed economically on a scale never before attempted. Public works were to include railways, roads, paving of streets, sanitation, reclamation of the desert valleys along the coast, port works and public buildings. The necessary money was to be secured by a liberal use of foreign credit, and fiscal policies were to be overhauled. In addition, foreign capital was to be induced to exploit Peru's rich mineral deposits, such as copper, lead, vanadium and petroleum. Administrative and social reforms were to be equally comprehensive.

SOCIAL AND POLITICAL PROJECTS OF LEGUIA

President Leguía also stated clearly the manner in which he intended to deal with Peru's administrative and social problems. A new Constitution was proposed, under which civil liberties were to be carefully

73. *Ibid.*, February 26, 1931.

1. Guillermo Billinghurst, who succeeded Leguía in 1912, was forced out in 1915 by Pardo.

protected. Absolute freedom of speech and of the press was to be guaranteed; the power of the executive was to be checked by a more responsible ministry and a stronger legislature; the President was not to be eligible for re-election and government was to be decentralized to give the departments and municipalities a greater degree of home rule and to reduce the traditional preponderance of Lima in the affairs of the country.

In the social phase, labor was to be more effectively protected; education was to be brought to the masses; a redistribution of land was to be effected to prevent the increase of large holdings; and the lot of the Indian was to be improved.

Constitutional Reform

In August 1919 Leguía submitted to the people a draft of the proposed changes in the Constitution just outlined. These were enthusiastically received and were later written into the Constitution by a constituent assembly.² A new and important feature which was also written into the Constitution was the provision for three regional congresses—northern, central and southern—whose functions were to be to voice local interests and to act as counterweights to the influence of Lima.

In accord with his program of social improvement, Leguía took the initiative in several ways. The enrollment in the primary schools was increased from 194,701 in 1920 to 308,450 in 1929, and 439 new schools were opened.³ In September 1921 an executive decree established a Bureau of Indian Affairs and later the *Patronato de la Raza Indígena* was organized—a body headed by the Archbishop of Lima and charged with the duty of protecting the Indians.⁴ A decree of 1923 established the right of the Indians to a minimum wage.

ECONOMIC PROGRAM:

RAILS, ROADS AND PORTS

Leguía's plan to endow the country with railways, roads, reclamation works and

modern ports attracted widespread attention both in Peru and abroad. By 1934 the government proposed to spend nearly \$250,000,000 on this program; by 1929 it had spent approximately \$65,000,000.⁵ Between 1919 and 1928, 502 kilometers⁶ of railways had been built,⁷ principally as improvements and extensions of existing lines.

The next item in importance was that of street paving and sanitation. Under this head \$18,000,000 was spent between 1920 and 1929 to give fourteen cities improved streets and drainage systems. The capital at Lima and the port of Callao, with their suburbs, were connected by modern paved roads, notably the *Avenida Progreso*. Mention also should be made of the public buildings erected in the capital, such as the Ministry of Justice, which was not finished, as well as the port works of Callao. Studies were carried out for the improvement of the water supply of various important centers, such as Cerro de Pasco.

Reclamation Projects

In the same period, \$16,500,000 was spent on reclamation projects designed to place in active production the rich but dry lands of the coastal valleys. Dams and canals were constructed and hydrographic surveys undertaken in the districts of Tumbes, Olmos, Chancay, Ica and Cañete, where Peru's sugar, cotton and rice are produced. The reclamation program was under the direction of Mr. C. W. Sutton, an American, who personally supervised the most ambitious of all the reclamation projects, that of Olmos in northern Peru.

Finally, about \$9,700,000 was spent in the period from 1920 to 1929 on roads and bridges. At the end of this period some 12,600 kilometers of highway had been built and construction of 10,800 additional kilometers "was about to begin," while 327 bridges were in process of completion.⁸ This work followed a plan according to which Peru would eventually have two arterial highways parallel to each other—

2. Cf. G. H. Stuart, *The Governmental System of Peru* (Washington, 1925), and *La Constitución del Perú* (Lima, 1922).

3. Peru, *Mensaje al Congreso*, 1920 to 1928.

4. *La Constitución del Perú*, cited, p. 636.

5. Compiled from Peru, *Balance y Cuenta General*, 1920 to 1929.

6. A kilometer is equivalent to .62 of a mile.

7. Peru, *Ministerio de Fomento*, "The New Country of Peru" (Lima, 1928), Appendix.

8. *Ibid.*, p. 17.

one along the coast and the other along the crest of the Andean heights. Actually, most of the work was done on the coast and the western slope of the mountains.

Practically all of this work was done under the supervision of foreign technical experts and under contracts with foreign firms. The most important of the latter was the Foundation Company, with which a contract was signed by the government in 1920, providing for a total eventual expenditure of not less than \$12,000,000 in street paving and drainage works, mostly in Lima and Callao.¹⁰ The company was given exclusive rights to construct all public works of this nature in the districts where it might operate.¹¹ The government undertook to meet all unforeseen expenditures, to accept all work done by the company and to pay for all changes or alterations.¹² Work was to be done on a cost-plus-ten per cent basis and the exchange value of the Peruvian pound was fixed at \$4.80 for the purpose of the contract.¹³ The company also acted as agent for the government in some of the latter's loan transactions in New York.

As a result of this program, Peru's economic life was considerably stimulated. Cotton production rose from 38,386 tons in 1920 to 54,443 in 1928;¹⁴ that of sugar increased from 357,963 tons in 1920 to 374,963 tons in 1927. Wheat production increased even more rapidly, rising from 70,719 tons in 1920 to a maximum of 95,568 tons in 1928.¹⁵ This improvement was partly attributable to the government's reclamation program, which by 1928 could, according to official figures, show an actual accomplishment of 132,000 acres reclaimed.¹⁶

DEVELOPMENT OF MINING

Even more marked was the increase in mineral production. Mineral products increased in value from £p8,134,694 in 1920 to £p30,241,710 in 1928.¹⁷ Peru became

the world's leading producer of vanadium, ranked fourth in production of silver, eighth in production of copper, and ninth in production of petroleum. Of these developments, the most arresting was that of petroleum—production of which rose from 373,280 tons in 1920 to 1,864,255 tons in 1929. Petroleum and copper alone accounted for 53.3 per cent of Peru's exports in 1928.

In keeping with this growth, the foreign trade of the country steadily increased if exception is made for the slump caused by the post-war world depression of 1920-1921. Until 1929 the trade balance was favorable to the country by annual amounts varying from £p8,704 to £p14,522,900.¹⁸ Of these exports, sugar, cotton, copper and petroleum were the important items, accounting for 83.4 per cent of total exports in 1928. Foreign investments, largely in copper, vanadium and petroleum, rose to a high level of \$360,000,000 in 1929, exclusive of the foreign money represented in issues of government obligations.¹⁹

PROPOSED REFORMS IN FISCAL AFFAIRS

Leguía hoped to match these accomplishments in the economic life of the country by a reform of the fiscal machinery of the state. To this end a law was enacted in 1922 which provided that estimated expenditures and revenues balance in every budget voted, and that extraordinary or additional credits be limited. The Minister of Finance was given power to draw up the budget and to fix the amounts which the various departments or ministries might spend.²⁰ An American expert, Dr. W. W. Cumberland, was employed from 1921 to 1924 as director of customs and adviser to the Reserve Bank. The bank had been founded in 1922. Economies were effected by measures such as the one which recalled the military attachés in Peruvian legations abroad.

FOREIGN BORROWING: THE PETROLEUM LOAN, 1922

It will be recalled that Leguía hoped to carry out his program of public improve-

10. Article 18; cf. Peru, *Anuario de Legislación Peruana*, 1920 for text of contract.

11. Article 20.

12. Article 29.

13. Peru, *Anuario de la Legislación Peruana*, 1920, p. 69.

14. Institute of International Finance, *Bulletin No. 18*, p. 5. and *Bulletin No. 34*, p. 3.

15. *Ibid.*, No. 18, p. 3.

16. "The New Country of Peru," cited, Appendix.

17. The Peruvian pound, worth \$4.86 at par, has fluctuated widely, sometimes declining to as low as \$3.60.

18. Peru, *Comercio Especial Exterior*, 1929, Vol. III.

19. Some estimates place this figure as high as \$400,000,000. (Institute of International Finance, *Bulletin No. 18*, p. 17.)

20. C. A. McQueen, *Peruvian Public Finance* (Washington, Department of Commerce, 1926), p. 33.

ments by borrowing abroad. The first loan of Leguía's second administration was contracted on November 10, 1921 with the Guaranty Trust Company of New York. The contract provided that Peru receive \$200,000 on short-term credit, and that an American commission visit Peru and report to the bankers on the use of the funds loaned and on Peru's credit standing.²¹ The contract

also confirmed Dr. W. W. Cumberland's appointment as chief of the customs service, and gave the Guaranty Trust preferential rights in future loan transactions.²²

This small loan was considered a "trial loan" to test Peru's credit standing and to pave the way for later and more important operations.²³ Between 1922 and 1928 foreign issues were as follows:

Peru's Loan Transactions, 1922-1928

| | |
|---|----------------------------|
| 1. Petroleum loan of 1922, 8% | \$ 2,500,000 |
| 2. Guano loan of 1922, 7½% | £ 1,250,000 |
| 3. Sanitation loan of 1924, 8% | \$ 7,000,000 |
| 4. Petroleum loan of 1925, 7½% | 7,500,000 |
| 5. Sanitation loan of 1926, 8% | 2,000,000 |
| 6. Gold bond loan of 1926, 7½% | 16,000,000 |
| 7. Tobacco loan of 1927, 7% | 15,000,000 |
| 8. Peruvian National loan, 1st series, 1927, 6% | 50,000,000 |
| 9. Peruvian National loan, 2nd series, 1928, 6% | { 25,000,000 £2,000,000 |

Foreign Loans and Taxation

The security for each loan varied. The Sanitation loans were secured by a property tax. Under the terms of the 1926 loan for \$16,000,000 floated by Blyth, Witter and Company, White-Weld and Company, and others, the *Compañía Administradora de Rentas* was set up as a fiscal agency for and under the direction of the bankers to collect the taxes by which this loan was secured. These included property, sales, inheritance, patent, and mining stamp taxes, a 10 per cent customs surtax, and both the tax and surtax on sugar consumption.²⁴ The 1922 Petroleum loan, placed through the Guaranty Trust Company of New York, was secured largely by petroleum duties.²⁵ Under the terms of the Guano loan of the same year, Baring Brothers and Schröder and Company were empowered to organize a private company to sell guano and to apply the revenues to the service of the loan. Peru was obliged not only to buy but also to turn over to the bankers 100,001 shares in the company. The proceeds of the loan were to be used to cancel arrears due the Peruvian Corporation, to meet deficits and to service the railway debt.²⁶

Part of the proceeds of the Peruvian National loan, the largest single transaction, were used for the redemption of the Sanitation loans of 1924 and 1926, the Petroleum loan of 1926 and the Gold loan of 1926.²⁷ The declining credit of the country prevented the placing of a third issue of Peruvian National loan bonds to the amount of \$15,000,000, and in the last half of 1929 the government was obliged to borrow \$5,075,000 on short-term credit from New York bankers.²⁸

Throughout his administration Leguía made frequent use of internal loans to supplement his borrowings abroad.²⁹ These transactions were made with the most important concerns operating in Peru and

21. The cost of the commission—about \$50,000—was paid by Peru from its public improvements fund. Peru, *Ministerio de Hacienda, Memoria, 1922*, p. 5.

22. *Ibid.*, 1921, p. 7-9, and *ibid.*, 1922, p. 6, 450.

23. *Ibid.*

24. Cf. *ibid.*, 1927, p. 109 et seq.

25. McQueen, *Peruvian Public Finance*, cited, p. 67-68.

26. The Peruvian Corporation was organized in 1890 by the holders of the bonds representing Peru's foreign debt at that time, which amounted to some \$49,000,000. The corporation undertook to relieve Peru of all responsibility for the foreign debt, in return for which the government granted the corporation concessions covering the management of the railways, the steamer service on Lake Titicaca, telephone and telegraph service, and the extraction and sale of guano up to three million tons. Several modifications have been made in this arrangement. Cf. International Institute of Finance, *Bulletin No. 18*, p. 24, and U. S. Department of Commerce, *Commerce Reports*, December 2, 1929, p. 573.

27. To the service of this loan were pledged all the public revenues except those pledged to other foreign loans and the income from the postal and telegraph services. It was in connection with this transaction that Leguía and his sons were alleged to have profited illegally.

28. *Commerce Reports*, cited, December 2, 1929, p. 573.

29. Advances were made, for example, by the Electric Boat Company, an American concern. Four submarines were built for the Peruvian government by this firm, under contracts of April 11, 1924 and October 11, 1926, at a cost of \$3,681,000. (*Ministerio de Hacienda, Memoria, 1924*, p. 27-28.) One of them, the R2, was delivered early in August 1926. On the first lap of the home voyage it became disabled and was adrift when United States revenue cutters came to its aid. *New York Times*, October 28, 1926.

usually represented short-term credits. Occasionally these were of a somewhat informal nature, since they were based on verbal

agreements between the Minister of the Treasury and the representatives of the concerns.

CRITICISMS OF LEGUIA'S ADMINISTRATION

This, in brief, summarizes Leguía's economic and financial policies and achievements from 1920 to 1929, the last full year of his administration. It was a period of unusual growth in the mineral industries and of increase in the productive capacity of the country in agriculture. Foreign trade and foreign investments grew constantly. Nevertheless, many Peruvians were dissatisfied, claiming that Leguía had not achieved the results he had set out to attain. According to these critics, the work accomplished was out of proportion to the money spent.

EXPENDITURE AND ACCOMPLISHMENT IN ECONOMIC DEVELOPMENT

Over \$21,000,000 had been spent on the construction of railways in an effort, according to statements of the government, to give the country a connected network of rail communications. In this period, however, as the Minister of Public Works stated, only 301 miles of rail had been laid.³¹

Drainage works and street paving consumed about \$18,000,000. Although the program originally included most of the important centers of Peru, such as Arequipa, Cuzco, Trujillo and Huacho, the work was concentrated in Lima and Callao. Nevertheless, in 1929 property owners in Lima and its suburbs were complaining of the slow pace of laying sewerage pipes and concrete.³² Discontent increased in Cerro de Pasco, Cuzco, and Arequipa when the improvements in water supply, public lighting and street paving failed to materialize.

In the same period about \$16,500,000 had been assigned for the construction of flood control works, dams and canals. Five years after the launching of the program cotton plantations in the valleys were flooded, rice growers were complaining of lack of water in other sections and the Olmos project was in need of capital.³³ Moreover, acreage had

not increased proportionately to the capital spent on reclamation or to the increase in production. Rice acreage was less in 1928 than it had been in 1917;³⁴ the sugar acreage for 1928 was 53,283 hectares compared to 49,804 hectares in 1919. In wheat and cotton the improvement was more marked, averaging an increase of about 30 per cent.

The \$9,700,000 paid out for road construction resulted in the construction of 10,643 kilometers actually given to traffic.³⁵ Available information indicates that bridge construction was behind schedule and sometimes uneconomical. Reports from the interior provinces showed that in some cases bridges had been left partially constructed, while in others bridges had been built without approaches.³⁶

GROWTH OF THE FOREIGN DEBT

As has been stated, the public works program and the policy of heavy borrowing were two aspects of the same plan. The growth of the foreign debt was therefore to be expected, and this growth developed into one of the most striking characteristics of Peruvian public finance between 1919 and 1929. During this decade the external debt increased from about \$10,000,000 to \$111,387,000.³⁷ At the end of November 1927, external obligations were 416 per cent larger than in 1920. The rate of growth tended to increase toward the end of this period, for from December 1926 to the end of June 1929 the foreign debt increased by 124.8 per cent.³⁸ An increase occurred in the internal debt as well.³⁹

34. *Estadística de la producción de arroz en el Perú*, 1911 to 1928 (Lima), *passim*.

35. Of these, 4,017 kilometers were unimproved dirt roads, and 4,762 improved dirt roads. (E. Zapatel, *Viabilidad y turismo en el Perú*, Lima, 1929, p. 142.) Approximately 1,841 kilometers were macadamized, and 83 kilometers were of concrete.

36. *El Comercio*, August 12, 1929.

37. Institute of International Finance, *Bulletin No. 18*, p. 27, and *Bulletin No. 34*, p. 13.

38. Institute of International Finance, *Bulletin No. 34*, p. 13.

39. Peru, *Balance y Cuenta General*, 1920 to 1928, and Peru, *Presupuesto General*, 1929. In 1920 this item amounted to P5,958,504; by June 1929 it had increased to about P8,450,000. The service costs increased proportionately, rising from P231,000 in 1920 to P2,595,000 in 1929. In the latter year the service on the total public debt absorbed about 20 per cent of the ordinary revenues.

31. "The New Country of Peru," cited, Appendix. Of this, not all represented government construction.

32. *El Comercio* (Lima), July 25, 1930.

33. *Estadística de la producción algodонера, 1925-1926* (Lima), p. 7.

Thus many Peruvians declared that inadequate progress had been made in pushing the public works program and that the public debt had increased disproportionately. Discontent was enhanced, moreover, by the increasing taxation, which was likewise justified on the ground that the funds were to be used for public works.⁴⁰

BUDGET DEFICITS

Not only did taxes increase, but the condition of national finances failed to improve. Capital expenditures for public works caused deficits in the total budget accounts every year after 1920; these deficits were turned into surpluses only by timely foreign loans. "Supplementary" or extraordinary credits,⁴¹ which in the past had caused yearly deficits and which the law of December 1922 was calculated to curtail, increased—in 1927 reaching a high level of £p817,548. Under these conditions the national budget increased steadily from £p5,169,147 in 1919 to £p12,583,636 in 1929.⁴² The 1930 budget was estimated at £p14,098,719.

As the ten-year period under consideration came to a close, these burdens began to strain the financial resiliency of the administration more and more. To meet the payments due the Electric Boat Company,⁴³ the government was obliged to borrow small sums from banks and business concerns.⁴⁴ The operations of the Foundation Company were continued either with advances made by the company itself or with short-term loans by local banks; and these advances could be repaid only as further loans were floated abroad. Beneficial as were the results of the Reserve Bank, the improvements in the customs administration and the creation of the office of comptroller in January 1930, these measures were insufficient to

withstand the added burdens created by the world depression which began in 1929.

OVEREMPHASIS ON EXPORT TRADE

As has been said already, in the period from 1920 to 1929 Peru came to rely increasingly on four commodities to balance its international trade. These commodities—sugar, cotton, petroleum and copper—composed 83.4 per cent of Peruvian exports in 1928, with petroleum amounting to 36 per cent of the total. Conditions in the world market caused a price decline in all these products, producing a decrease in the value of exports beginning in 1928.⁴⁵

POLITICAL SUPPRESSION AND FREEDOM OF THE PRESS

Furthermore, a large part of the constitutional program was never put into effect. On the contrary, many political parties were suppressed, and only three—the *Constitucional*, the *Demócrata Reformista* and the *Démocratico*—were allowed to take part in political affairs. The second of these was Leguía's own party, but the other two were in no sense opposition groups. In 1929, for example, all three supported Leguía's unopposed candidacy for re-election.⁴⁶ Political leaders of liberal or radical tendencies were jailed or exiled. The workers' schools, which Haya de la Torre had organized with great success, were suppressed, and Torre himself was compelled to flee the country. Freedom of the press was not permitted. In 1921 the equipment of *La Prensa* was expropriated and thereafter used as an administration organ.⁴⁷ The editor of the *West Coast Leader*, Mr. Charles Southwell, an English subject, was imprisoned for having made certain statements in May 1919 which Leguía considered derogatory. In 1921 the government was obliged to pay an indemnity of £3,000 to Mr. Southwell.⁴⁸ In November 1928 a law was adopted which provided that treason by any Peruvian, living in Peru or abroad, was punishable by confiscation of property or imprisonment.

40. Taxes for road construction were levied on distilled liquors (*Ministerio de Hacienda, Memoria, 1925*); a gasoline tax of 10 centavos—4 cents—was created in October 1927 and increased to 30 centavos in November 1928 for similar purposes (*El Peruano*, January 22, 1929, p. 69). Street paving in Barranco, Lima and Callao was done at the expense of the property owners (*ibid.*, March 25, 1929, p. 279, and *Ministerio de Hacienda, Memoria, 1928*, p. 234), and the Agricultural Experimental Station at Cañete was maintained by a special tax on cotton (*ibid.*, p. 90).

41. These supplementary or extraordinary credits were voted after the ordinary budget had been adopted, usually by the Council of Ministers.

42. *Balanceo y Cuenta General, 1920 to 1929*, cited.

43. Cf. p. 113, footnote 29.

44. *Ministerio de Hacienda, Memoria, 1926*, p. 11, and *ibid.*, 1925, p. 28. In order to pay for the building of the Venezuela legation, donated by Peru, the government had to borrow £p18,000 from the *Banco Italiano*. *Ibid.*, 1926, XVIII.

45. Peru, *Comercio Especial Exterior, 1929*, p. III.

46. *Mensaje, 1929*, p. 16.

47. *Ibid.*, 1921, p. 6.

48. Peru, *Ministerio de Relaciones Exteriores, Memoria, 1921*, p. 29.

These tendencies reflected the growing power of the executive. Ministerial and legislative checks and balances did not, in fact, develop. One of the most important ministerial portfolios, that of Public Works, was generally held only by unconditional supporters of Leguía. One of his brothers was president of the Senate. That a stronger rather than a weaker executive was the practical aim of the administration was indicated by the fact that in 1924 the Constitution was amended to remove the obstacle to Leguía's re-election.

FAILURE OF REGIONAL GOVERNMENT

In spite of the provisions in the Constitution for the regional congresses, decentralization did not develop. The laws enacted by the regional legislatures were subject to the veto of the national President, a right which was frequently exercised, as in 1922, when of the sixty-one laws enacted by the regional legislatures thirty-seven were rejected by the President. With their initiative thus discouraged, the laws and resolutions adopted by these three bodies, which in 1920 numbered 447, decreased to twelve in 1926.⁴⁹

The centripetal tendencies which destroyed the effectiveness of these congresses also weakened the smaller and better established units of local government. In March 1921 the *Juntas Departamentales*, which since 1873 had controlled departmental finances, were abolished. A decree of 1896 to the effect that no money should be paid for local administrative expenses without the permission of the prefect (who was appointed by the central government) was revived in 1920. The municipalities were forbidden to create new taxes or to increase existing ones without the consent of the national authorities, and existing tax ordinances were revoked by executive decree.⁵⁰

For these reasons discontent and jealousy in the northern, southern and interior departments increased. This feeling, with its deep cultural roots,⁵¹ was strengthened by political and economic causes, such as the large expenditures for public improvements in Lima, the control by the central govern-

ment of the taxing power, the concentration of reclamation work in the coastal valleys and the subservience of local administrative units to the executive. The old quarrel between *las provincias* and *la capital* continued.

FAILURE OF SOCIAL REFORM

President Leguía's social projects faced the difficulties of practical application. The cost of living rose steadily and with it the burden on the working class. Since organized labor might threaten the investment of foreign capital through strikes, the government frequently threw its influence against the workers, as in the case of the strike against the *Compañía de Tranvías Eléctricos* of Lima. Discontent was chronic in the mining districts, as in the Cerro de Pasco region.⁵² Ownership of land, especially in the richer river valleys of the coast, appeared to become more concentrated rather than more diffuse,⁵³ and the condition of the Indians, according to the reports of the *Patronato de la Raza Indígena*, did not improve greatly. Peonage, expropriation of land and compulsory service on highway construction continued.⁵⁴ The University of San Marcos, a center of discontent throughout Leguía's administration, remained "in a state of reorganization" from 1921 to 1928 by order of the President.⁵⁵

To the discontent of the workers and students was added that of influential army officers. Many of the strongest nationalists were to be found in the army and their criticisms of Leguía were based largely on the reorganization of the national police and the conduct of foreign affairs. The national police was reorganized in 1924 by the creation of the *Guardia Civil*, under the direction of a Spanish mission brought to Peru for that purpose. This body soon became an efficient, well-drilled and mobile unit under the direct supervision of the President, whose solicitude for the *Guardia* created resentment among staff officers.⁵⁶

52. *El Peruano*, February 20, 1929, p. 169.

53. *Statistical Abstract*, 1928, p. 105.

54. Gustavo Cumin, *Peru, condizione naturali ed economiche* (Rome, 1926), p. 144; Dávalos y Lissón, *La primera centuria* (Lima, 1919-1922), Vol. I, p. 309; Abelardo Solís, *Ante el problema agrario peruano* (Lima, 1928), p. 170; *El Peruano*, April 27, 1929, p. 393.

55. *Mensaje*, 1921, p. 9.

56. "Documentos de la revolución peruana." *Revista Chilena*, July-August, 1930.

49. *Statistical Abstract*, 1926, p. 10.

50. *Ministerio de Hacienda, Memoria*, 1928, p. 262, 263, 265.

51. Emilio Romero, *Tres ciudades del Perú* (Lima, 1929), p. 60 et seq.

LEGUÍA AND PERU'S INTERNATIONAL RELATIONS

In foreign affairs Leguía had achieved the settlement of the long-standing dispute with Chile by the treaty of June 1929.^{56a} This settlement, however, increased the hostility of nationalists in army circles. They pointed out that Leguía had justified his coup against Pardo in 1919 partly on the ground that Pardo had not recovered the lost provinces taken by Chile in the War of the Pacific. When, therefore, the settlement was announced and it was known that the historic Morro would remain in Chile's possession, disappointment was keen.

Furthermore, Leguía's undisguised sympathy for the United States gave the nationalists another point of attack.⁵⁷ This sympathy they interpreted as subservience, pointing to the fact that the Fourth of July had been regularly declared a national holiday in Peru.^{57a} A portrait of President Monroe hung in the executive offices; the Order of the Sun was offered to President Hoover,

Secretary of State Stimson and Ambassador Moore;⁵⁸ President Leguía had stated that any movement in the Western Hemisphere "intended as a species of racial block opposed to the gigantic development of North America . . . seems an illusion."⁵⁹

This attitude, it was held, indicated that Leguía enjoyed the friendly support of the United States. When in March 1920 anti-Peruvian outbreaks occurred in La Paz in connection with the Tacna-Arica controversy, Secretary of State Colby sent a strong note to Bolivia insisting that efforts should be made to keep peace in South America. A copy of this note was sent to the Chilean government, and the Peruvian Minister of Foreign Affairs considered this a rebuke to Chile as well as to Bolivia.⁶⁰ Ambassador Moore's remarks that "Leguía has the courage of Caesar, the power of Napoleon and the diplomacy of Richelieu," and that Leguía "would go down in history as one of the world's greatest men" caused widespread comment.⁶¹

THE REVOLUTION OF 1930

Under these circumstances political issues were brought to a head. Those of the opposition who might have hoped for a change were disillusioned when Leguía forced his election for a third consecutive term in August 1929.

The opposition, discouraged in so far as elections were concerned, once more planned a revolt. Previous attempts at armed uprisings from 1922 on had been suppressed, and the coup planned for September 1929 was forestalled by the inability to deliver the blow at Lima.⁶² The revolt was postponed until August 29, 1930, but when the plot was revealed to the government, Colonel Luis M. Sánchez Cerro, commandant at Arequipa and one of the conspirators, decided

to strike prematurely and on August 22 the Arequipa garrison declared itself in rebellion.

Events then moved rapidly. On August 23 Sánchez Cerro issued a manifesto from Arequipa charging Leguía with malfeasance, improper relations with foreign business interests, over-centralization of administration, neglect of the interests of the departments, infringement of the Constitution and antagonism to the national army in permitting the continuance of the *Guardia Civil*.⁶³ The cabinet resigned on August 24, whereupon Leguía named a new one. The staff officers stationed at Lima, refused, however, to recognize the new cabinet or any other which the President might appoint. This was in effect a bloodless *coup d'état*. Leguía so understood it, and on August 25 resigned.

The military junta which took over affairs

56a. A workers' savings bank was established with the \$8,000,000 received from Chile in the Tacna-Arica settlement.

57. American technical experts were called in as advisers in education, agriculture, finances, commerce, the army and the navy. An American employed as expert adviser to the tobacco industry received a salary of \$30,000 a year. (*El Peruano*, January 8, 1929, p. 22.) Cabinet Ministers receive about \$6,500 a year.

57a. *Ministerio de Relaciones Exteriores, Memoria, 1923*, p. 81.

58. These decorations were "temporarily declined." Cf. *El Comercio*, August 21, 1929.

59. *New York Herald Tribune*, October 13, 1929.

60. *Ministerio de Relaciones Exteriores, Boletín, Número 65*, p. 37.

61. *La Prensa* (New York), July 11, 1929.

62. *El Comercio*, September 23, 1930.

63. *Revista Chilena*, July-August 1930, p. 735 et seq.

ruled until Sánchez Cerro, arriving on August 28, assumed control as Provisional President.

IMPRISONMENT OF LEGUIA

The provisional government imprisoned Leguía and many of the prominent men who had served under him.⁶⁴ The national administration was reorganized and plans were made for a return to a constitutional régime. Student unrest continued, however, and troops were sent to occupy the University of San Marcos.⁶⁵ Strikes in Cerro de Pasco and Talara were followed by deportations and the suppression of workers' unions. Furthermore, the constitutional assembly which had been called for November 10, 1930 was postponed, and the belief spread that Sánchez Cerro was planning to continue in power indefinitely. The situation was further complicated by

disagreement over the distribution of portfolios in the cabinet. On February 21, 1931 a revolt against Sánchez Cerro broke out in Arequipa, followed by one in Cuzco. Sánchez Cerro resigned on March 1 and was succeeded by a junta of civilians, which in turn was ousted by Colonel Jiménez. On March 8 Jiménez retired in favor of Señor David Samanez Ocampo, now Provisional President.

Meanwhile, although the foreign debt charges constitute only about 25 per cent of the 1931 Peruvian budget,⁶⁶ and although the economic existence of the country is not dependent upon a single export, the internal political situation remains chaotic, and there seem to be few signs that stable government will soon be restored. This condition may be the inevitable result of a dictatorship which concentrated all the powers of the country within its own hands.

CONCLUSION

The revolutions in Bolivia and Peru in 1930 can be attributed to economic maladjustment arising out of problems such as the low standard of living of the workers, lack of communications and over-emphasis on foreign trade, and to the world economic depression which accentuated the ill-effects of an internal economic policy carried out by means of unusually generous foreign borrowing. These revolutions in part can be attributed also to revulsion against dic-

tatorship, which reached its climax following economic depression. Although Bolivia seems now to have established a stable and democratic government, it cannot be said that these revolutions solved the other problems which brought them into existence. They revealed, however, the complexity and importance of these problems, and in so doing may have contributed to making revolution less necessary and less frequent in the future.

64. One of the first acts of the Sánchez Cerro government was the creation of a Tribunal of National Accounting to consider charges against Leguía and many of the officials of his régime. (*El Comercio*, September 1930.) This Tribunal found Leguía and his three sons guilty of improper management of public property, and imposed a fine of \$7,625,000. (*New York Times*, January 9, 1931.) This fine was the result of an investigation in which the defendants were not given an opportunity to disprove the charges in open court.

65. *La Prensa* (New York), February 19, 1931.

66. Early in 1931 Professor Edwin Kemmerer was called to Peru by the Sánchez Cerro government to assist in reorganizing finances. As a result, Peru has revalued the *sol*, strengthened the banking system, and adopted several other financial reforms. These measures came too late to prevent default on the National loan on April 30, 1931.